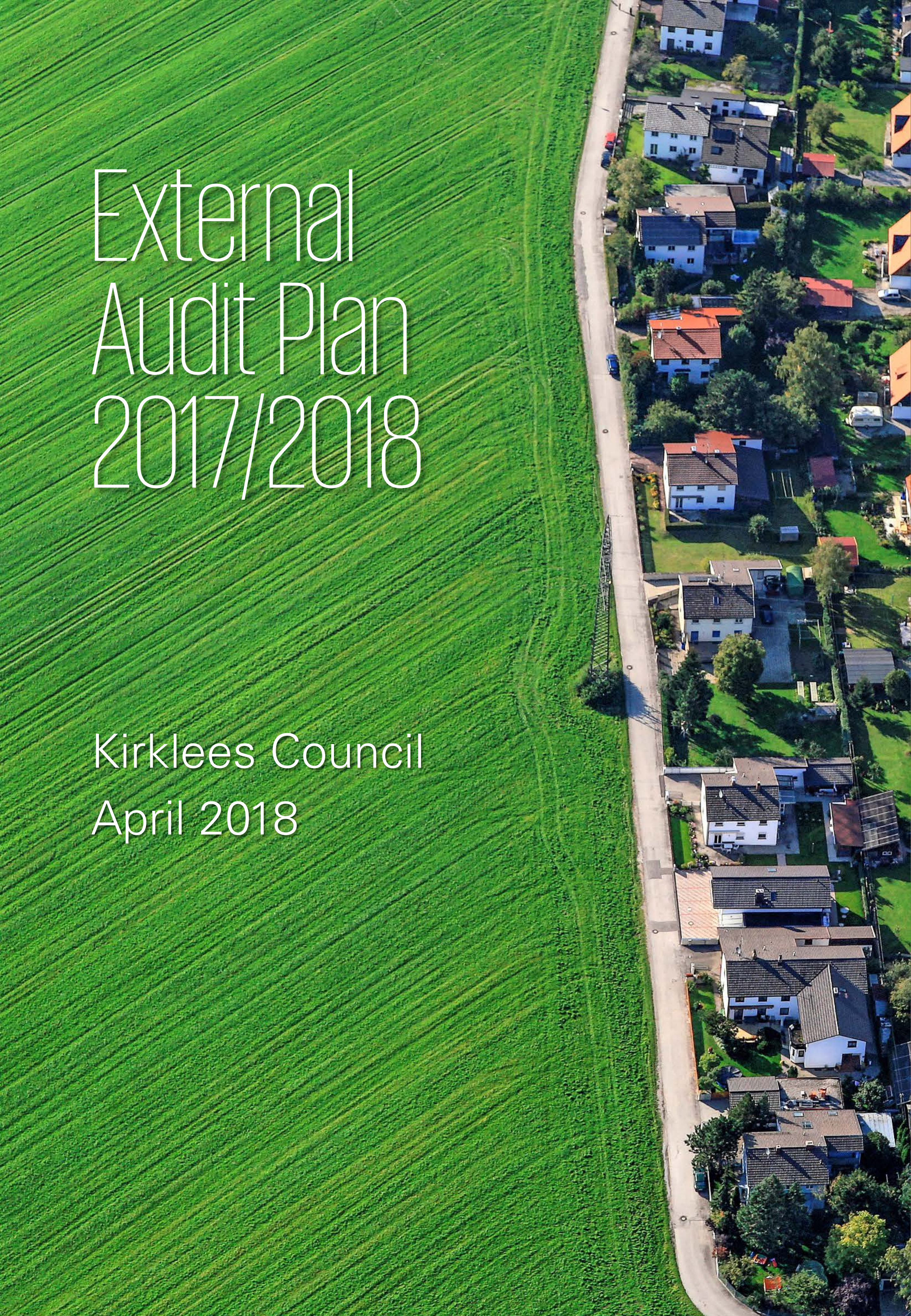
External Audit Plan 2017/2018

Kirklees Council

April 2018



Summary for Corporate Governance and Audit Committee

Financial statements

There are no significant changes to the Code of Practice on Local Authority Accounting ("the Code") in 2017/18, which provides stability in terms of the accounting standards the Authority need to comply with. Despite this, the deadline for the production and signing of the financial statements has been significantly advanced in comparison to year ended 31 March 2017. We recognise that the Authority has successfully advanced its own accounts production timetable in prior years so as to align with the new deadlines. Due to staff changes within the accounts production team, however, we do feel that this represents a significant risk.

In order to meet the revised deadlines it will be essential that the draft financial statements and all prepared by client documentation is available in line with agreed timetables. Where this is not achieved there is a significant likelihood that the audit report will not be issued by 31 July 2018.

Materiality

Materiality for planning purposes has been set at **£11.5 million**.

We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance and this has been set at **£0.575 million**.

Significant risks

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error have been identified as:

- **Valuation of PPE (Key audit matter)**– Whilst the Council operates a cyclical revaluation approach, the Code requires that all land and buildings be held at fair value. We will consider the way in which the Council ensures that assets not subject to in-year revaluation are not materially misstated;
- **Valuation of Pension Liability (Key audit matter)** – The valuation of the Council's pension liability, as calculated by the Actuary, is dependent upon both the accuracy and completeness of the data provided and the assumptions adopted. We will review the processes in place to ensure accuracy of data provided to the Actuary and consider the assumptions used in determining the valuation.
- **Faster Close** – As set out above, the timetable for the production of the financial statements has been significantly advanced with draft accounts having to be prepared by 31 May (2017: 30 June) and the final accounts signed by 31 July (2017: 30 September). We will work with the Council in advance of our audit to understand the steps being taken to meet these deadlines and the impact on our work; and

Summary for Corporate Governance and Audit Committee (cont.)

Value for Money Arrangements work	Our risk assessment regarding your arrangements to secure value for money has identified the following VFM significant risks to date: – **Delivery of Budgets** – As a result of reductions in central government funding, and other pressures, the Council is having to make additional savings beyond those from prior years. We will consider the way in which the Council identifies, approves, and monitors both savings plans and how budgets are monitored throughout the year; and – **Children's Services Arrangements** – On 25 November 2016 Ofsted published its report from its Inspection of services for children in need of help and protection children looked after and care leavers, and its review of the effectiveness of the Local Safeguarding Children Board. The report rated Children's Services overall in Kirklees as Inadequate. Following this the Council has made fundamental changes in this area including a partnership arrangement with Leeds City Council (LCC) to improve Children's Services. The Commissioner report published in September 2017 noted the Council did not have the leadership and management capacity and capability to drive forward the necessary changes, and their recommendation was to progress the partnership arrangements with LCC to deliver the improvements. We will consider the extent to which the Council has demonstrated tangible improvements in 2017/18. This issue impacted on our VFM conclusion and we issued a qualified 'except for' VFM conclusion in 2016/17. We will consider the degree to which changes that have been made in the Council's arrangements impact on our VFM conclusion for 2017/18. **See pages 11 to 16 for more details**
Logistics	Our team is: – Rashpal Khangura - Director – Emma Kirkby - Manager – Thomas Brough – Assistant manager More details are in **Appendix 2**. Our work will be completed in four phases from December to July and our key deliverables are this Audit Plan and a Report to Those Charged With Governance as outlined on **page 19**. Our fee for the 2017/18 audit is £158,729 (£164,549 2016/2017) see **page 18**. These fees are in line with the scale fees published by PSAA.
Acknowledgements	We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work.

Introduction

Background and Statutory responsibilities

This document supplements our Audit Fee Letter 2017/18 presented to you in March 2017, which also sets out details of our appointment by Public Sector Audit Appointments Ltd (PSAA).

Our statutory responsibilities and powers are set out in the Local Audit and Accountability Act 2014, the National Audit Office's Code of Audit Practice and the PSAA Statement of Responsibilities.

Our audit has two key objectives, requiring us to audit/review and report on your:

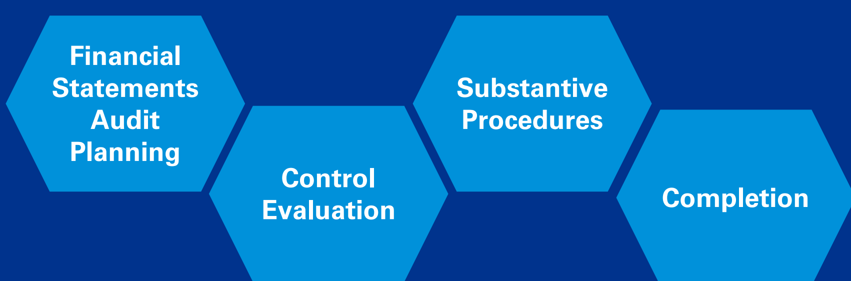
01 **Financial statements :**
Providing an opinion on your accounts. We also review the Annual Governance Statement and Narrative Report and report by exception on these; and

02 **Use of resources:**
Concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the value for money conclusion).

The audit planning process and risk assessment is an on-going process and the assessment and fees in this plan will be kept under review and updated if necessary. Any change to our identified risks will be reporting to the Corporate Governance and Audit Committee.

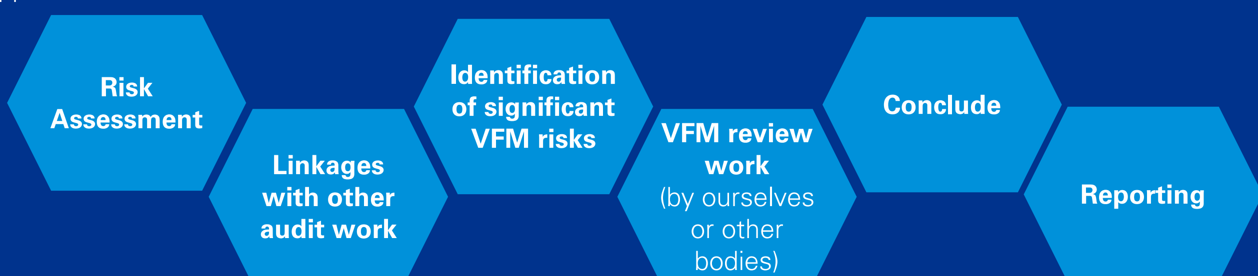
Financial Statements Audit

Our financial statements audit work follows a four stage audit process which is identified below. Appendix 1 provides more detail on the activities that this includes. This report concentrates on the Financial Statements Audit Planning stage of the Financial Statements Audit.



Value for Money Arrangements Work

Our Value for Money (VFM) Arrangements Work follows a six stage process which is identified below. Page 11 provides more detail on the activities that this includes. This report concentrates on explaining the VFM approach for 2017/18.



Financial statements audit planning

Financial Statements Audit Planning

Our planning work takes place during December 2017 to January 2018. This involves the following key aspects:

- Determining our materiality level;
- Risk assessment;
- Identification of significant risks;
- Consideration of potential fraud risks;
- Identification of key account balances in the financial statements and related assertions, estimates and disclosures;
- Consideration of management's use or experts; and
- Issuing this audit plan to communicate our audit strategy.

Risk assessment

Auditing standards require us to consider two standard risks for all organisations. We are not elaborating on these standard risks in this plan but consider them as a matter of course in our audit and will include any findings arising from our work in our ISA 260 Report.

01

Management override of controls

Management is typically in a powerful position to perpetrate fraud owing to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Our audit methodology incorporates the risk of management override as a default significant risk. In line with our methodology, we carry out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.

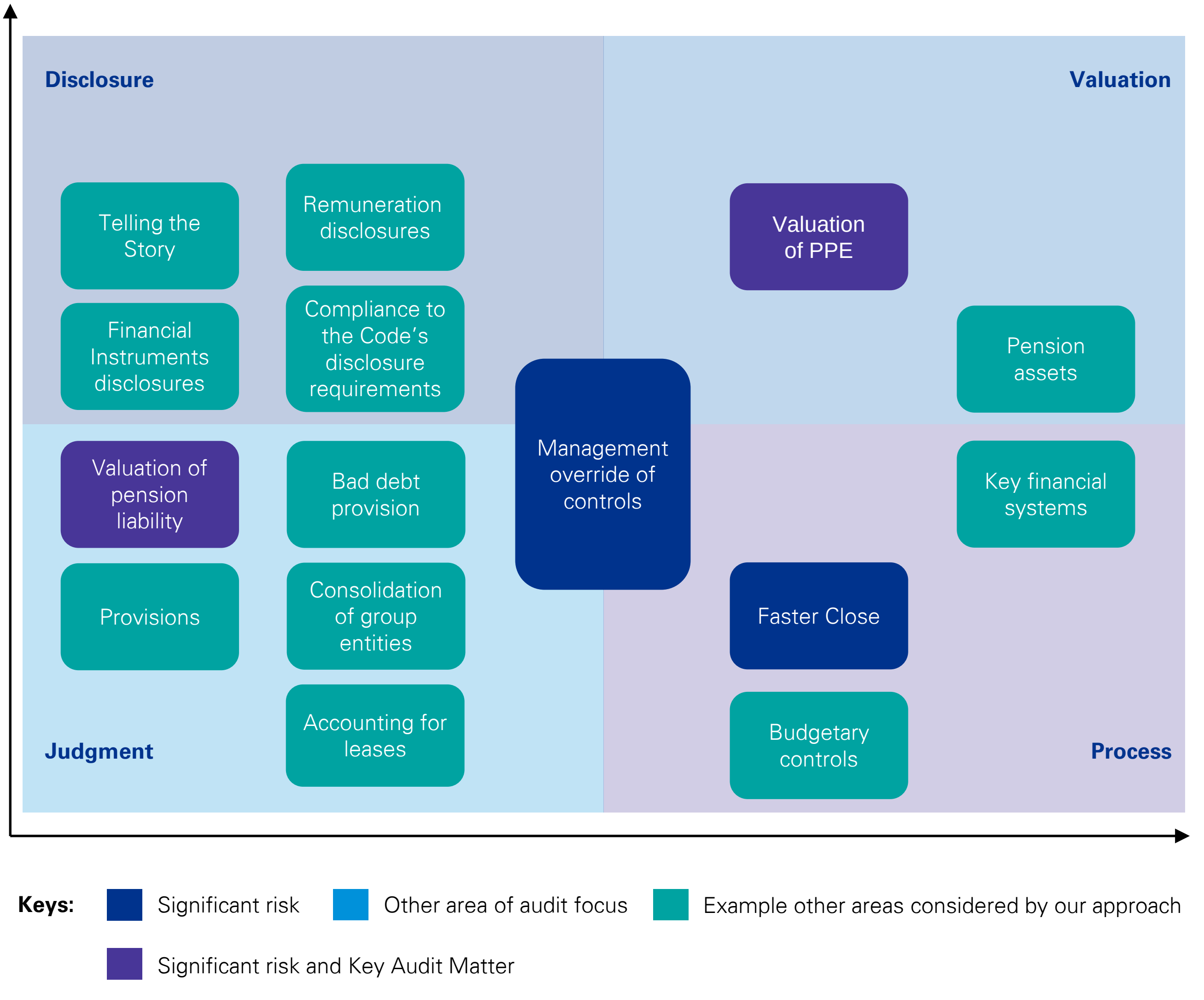
02

Fraudulent revenue recognition

We do not consider this to be a significant risk for local authorities as there are limited incentives and opportunities to manipulate the way income is recognised. We therefore rebut this risk and do not incorporate specific work into our audit plan in this area over and above our standard fraud procedures.

Financial statements audit planning (cont.)

The diagram below identifies significant risks and other areas of audit focus, which we expand on overleaf. The diagram also identifies a range of other areas considered by our audit approach.



Financial statements audit planning (cont.)

Significant Audit Risks

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error in relation to the Council.

Risk:

Valuation of PPE (Key Audit Matter)

The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate fair value at that date. The Council has adopted a rolling revaluation model which sees all land and buildings revalued over a five year cycle. As a result of this, however, individual assets may not be revalued for four years.

This creates a risk that the carrying value of those assets not revalued in year differs materially from the year end fair value. In addition, as the valuation is undertaken as at 1 April, there is a risk that the fair value is different at the year end.

Council Dwelling valuations are based on Existing Use Value, discounted by a factor to reflect that the assets are used for Social Housing. The Social Housing adjustment factor is prescribed in DCLG guidance, but this guidance indicates that where a valuer has evidence that this factor is different in the Council's area they can use their more accurate local factor. There is a risk that the Council's application of the valuer's assumptions is not in line with the statutory requirements and that the valuation is not supported by detailed evidence indicating that the standard social housing factor is not appropriate to use.

Approach:

We will review the approach that the Council has adopted to assess the risk that assets not subject to valuation are materially misstated and consider the robustness of that approach. We will also assess the risk of the valuation changing materially during the year.

In addition, we will consider movement in market indices between revaluation dates and the year end in order to determine whether these indicate that fair values have moved materially over that time.

In relation to those assets which have been revalued during the year we will assess the valuer's qualifications, objectivity and independence to carry out such valuations and review the methodology used (including testing the underlying data and assumptions).

Financial statements audit planning (cont.)

Significant Audit Risks (cont.)

Risk:

Valuation of Pension Liability (Key Audit Matter)

The pension liability represents a material element of the Council's balance sheet. The Council is an admitted body of West Yorkshire Pension Fund, which had its last triennial valuation completed as at 31 March 2016. This forms an integral basis of the valuation as at 31 March 2018.

The valuation of the Local Government Pension Scheme relies on a number of assumptions, most notably around the actuarial assumptions, and actuarial methodology which results in the Council's valuation.

There are financial assumptions and demographic assumptions used in the calculation of the Council's valuation, such as the discount rate, inflation rates, mortality rates etc. The assumptions should also reflect the profile of the Council's employees, and should be based on appropriate data. The basis of the assumptions is derived on a consistent basis year to year, or updated to reflect any changes.

There is a risk that the assumptions and methodology used in the valuation of the Council's pension obligation are not reasonable. This could have a material impact to pension liability accounted for in the financial statements.

Approach:

As part of our work we will review the controls that the Council has in place over the information sent directly to the Scheme Actuary. We will also liaise with the auditors of the Pension Fund in order to gain an understanding of the effectiveness of those controls operated by the Pension Fund. This will include consideration of the process and controls with respect to the assumptions used in the valuation. We will also evaluate the competency, objectivity and independence of the Actuary.

We will review the appropriateness of the key assumptions included within the valuation, compare them to expected ranges, and consider the need to make use of a KPMG Actuary. We will review the methodology applied in the valuation by the Actuary.

In addition, we will review the overall Actuarial valuation and consider the disclosure implications in the financial statements.

Financial statements audit planning (cont.)

Significant Audit Risks (cont.)

Risk:

Faster Close

In prior years, the Council has been required to prepare draft financial statements by 30 June and then final signed accounts by 30 September. For years ending on and after 31 March 2018 however, revised deadlines apply which require draft accounts by 31 May and final signed accounts by 31 July.

During 2016/17, the Council started to prepare for these revised deadlines and advanced its own accounts production timetable so that draft accounts were ready by 31 May. Whilst this was an advancement on the timetable applied in preceding years, further work is still required in order to ensure that the statutory deadlines for 2017/18 are met given the recent staffing changes in the accounts production team.

In order to meet the revised deadlines, the Council may need to make greater use of accounting estimates. In doing so, consideration will need to be given to ensuring that these estimates remain valid at the point of finalising the financial statements. In addition, there are a number of logistical challenges that will need to be managed. These include:

- Ensuring that any third parties involved in the production of the accounts (including valuers, actuaries) are aware of the revised deadlines and have made arrangements to provide the output of their work in accordance with this;
- Revising the closedown and accounts production timetable in order to ensure that all working papers and other supporting documentation are available at the start of the audit process;
- Ensuring that the Corporate Governance and Audit Committee meeting schedules have been updated to permit signing in July; and
- Applying a shorter paper deadline to the July meeting of the Corporate Governance and Audit Committee meeting in order to accommodate the production of the final version of the accounts and our ISA 260 report.

In the event that the above areas are not effectively managed there is a significant risk that the audit will not be completed by the 31 July deadline.

There is also an increased likelihood that the Audit Certificate (which confirms that all audit work for the year has been completed) may be issued separately at a later date if work is still ongoing in relation to the Council's Whole of Government Accounts return. This is not a matter of concern and is not seen as a breach of deadlines.

Approach:

We will continue to liaise with officers in preparation for our audit in order to understand the steps that the Council is taking in order to ensure it meets the revised deadlines. We will also look to advance audit work into the interim visit in order to streamline the year end audit work.

Where there is greater reliance upon accounting estimates we will consider the assumptions used and challenge the robustness of those estimates.

Financial statements audit planning (cont.)

Materiality

We are required to plan our audit to determine with reasonable confidence whether or not the financial statements are free from material misstatement. An omission or misstatement is regarded as material if it would reasonably influence the user of financial statements. This therefore involves an assessment of the qualitative and quantitative nature of omissions and misstatements.

Generally, we would not consider differences in opinion in respect of areas of judgement to represent 'misstatements' unless the application of that judgement results in a financial amount falling outside of a range which we consider to be acceptable.

For the Council, materiality for planning purposes has been set at £11.5 million, which equates to 1.0% percent of gross expenditure.

We design our procedures to detect errors in specific accounts at a lower level of precision.

Prior Year Gross Expenditure: £1,167m (2016/17: £1,028m)

Materiality

£11.5m

1.0% of Expenditure

(2016/17: £15m, 1.5%)

£0.575m Misstatements reported to the corporate governance and audit committee (2016/17: £0.75m)

£7.475m Procedures designed to detect individual errors (2016/17: £11.25m)

£11.5m Materiality for the financial statements as a whole (2016/17: £15m)

Financial statements audit planning (cont.)

Reporting to the Corporate Governance and Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Corporate Governance and Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260(UK&I) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK&I) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

In the context of the Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.575m million.

If management has corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Corporate Governance and Audit Committee to assist it in fulfilling its governance responsibilities.

We will report:

- Non-Trivial corrected audit misstatements
- Non-trivial uncorrected audit misstatements
- Errors and omissions in disclosure (Corrected and uncorrected)

Group audit

In addition to the Council the group accounts include the Kirklees Neighbourhood Housing Limited, which is not deemed to be significant in the context of the group audit.

We will reassess the significance of this subsidiary throughout our audit and will report any changes in our assessment to the Corporate Governance and Audit Committee.

Value for money arrangements work

VFM audit approach

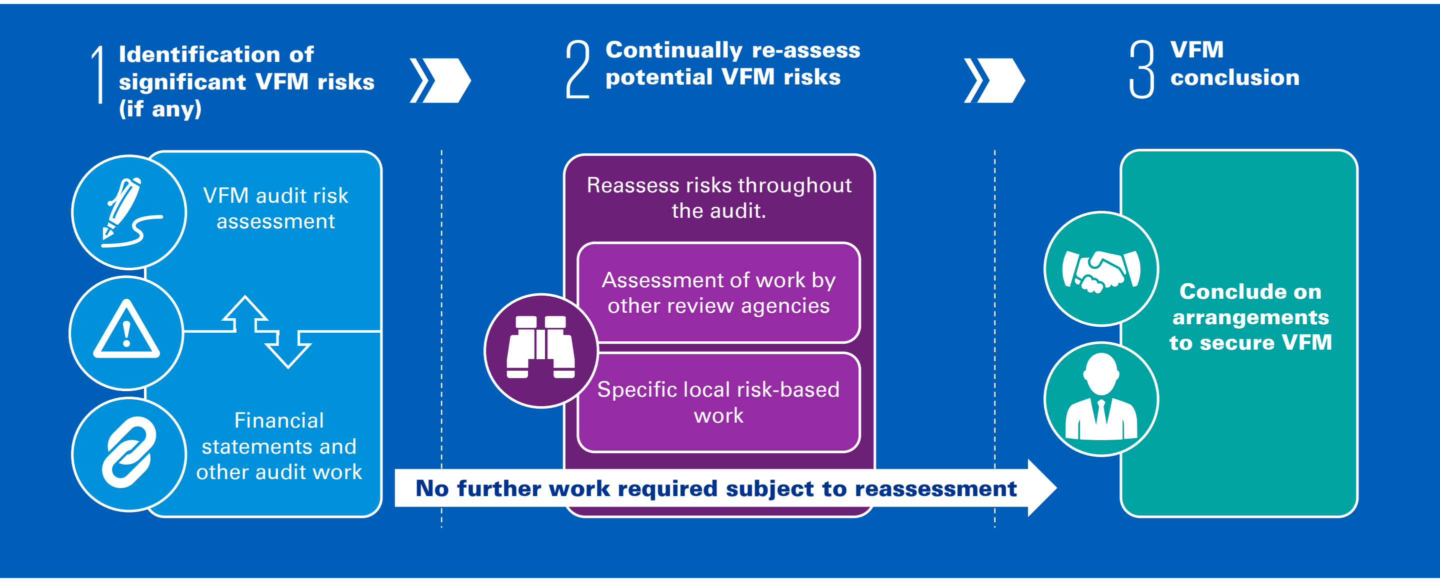
The Local Audit and Accountability Act 2014 requires auditors of local government bodies to be satisfied that the Council 'has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources'.

This is supported by the Code of Audit Practice, published by the NAO in April 2015, which requires auditors to 'take into account their knowledge of the relevant local sector as a whole, and the audited body specifically, to identify any risks that, in the auditor's judgement, have the potential to cause the auditor to reach an inappropriate conclusion on the audited body's arrangements.'

Overall criterion

In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

The VFM approach is fundamentally unchanged from that adopted in 2016/17 and the process is shown in the diagram below. The diagram overleaf shows the details of the sub-criteria for our VFM work.



Value for money arrangements work (cont.)

Value for Money sub-criterion

Informed decision making

Proper arrangements:

- Acting in the public interest, through demonstrating and applying the principles and values of sound governance.
- Understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management.
- Reliable and timely financial reporting that supports the delivery of strategic priorities.
- Managing risks effectively and maintaining a sound system of internal control.

Sustainable resource deployment

Proper arrangements:

- Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.
- Managing and utilising assets to support the delivery of strategic priorities.
- Planning, organising and developing the workforce effectively to deliver strategic priorities.

Working with partners and third parties

Proper arrangements:

- Working with third parties effectively to deliver strategic priorities.
- Commissioning services effectively to support the delivery of strategic priorities.
- Procuring supplies and services effectively to support the delivery of strategic priorities.

Value for money arrangements work (cont.)

VFM audit stage

VFM audit risk assessment

Audit approach

We consider the relevance and significance of the potential business risks faced by all local authorities, and other risks that apply specifically to the Council. These are the significant operational and financial risks in achieving statutory functions and objectives, which are relevant to auditors' responsibilities under the *Code of Audit Practice.*

In doing so we consider:

- The Council's own assessment of the risks it faces, and its arrangements to manage and address its risks;
- Information from the Public Sector Auditor Appointments Limited VFM profile tool;
- Evidence gained from previous audit work, including the response to that work; and
- The work of other inspectorates and review agencies.

Linkages with financial statements and other audit work

Audit approach

There is a degree of overlap between the work we do as part of the VFM audit and our financial statements audit. For example, our financial statements audit includes an assessment and testing of the Council's organisational control environment, including the Council's financial management and governance arrangements, many aspects of which are relevant to our VFM audit responsibilities.

We have always sought to avoid duplication of audit effort by integrating our financial statements and VFM work, and this will continue. We will therefore draw upon relevant aspects of our financial statements audit work to inform the VFM audit.

Identification of significant risks

Audit approach

The Code identifies a matter as significant *'if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public. Significance has both qualitative and quantitative aspects.'*

If we identify significant VFM risks, then we will highlight the risk to the Council and consider the most appropriate audit response in each case, including:

- Considering the results of work by the Council, inspectorates and other review agencies; and
- Carrying out local risk-based work to form a view on the adequacy of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.

Value for money arrangements work (cont.)

VFM audit stage

Assessment of work by other review agencies, and Delivery of local risk based work

Concluding on VFM arrangements

Reporting

Audit approach

Depending on the nature of the significant VFM risk identified, we may be able to draw on the work of other inspectorates, review agencies and other relevant bodies to provide us with the necessary evidence to reach our conclusion on the risk.

We will also consider the evidence obtained by way of our financial statements audit work and other work already undertaken.

If evidence from other inspectorates, agencies and bodies is not available and our other audit work is not sufficient, we will need to consider what additional work we will be required to undertake to satisfy ourselves that we have reasonable evidence to support the conclusion that we will draw. Such work may include:

- Additional meetings with senior managers across the Council;
- Review of specific related minutes and internal reports;
- Examination of financial models for reasonableness, using our own experience and benchmarking data from within and without the sector.

Audit approach

At the conclusion of the VFM audit we will consider the results of the work undertaken and assess the assurance obtained against each of the VFM themes regarding the adequacy of the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources.

If any issues are identified that may be significant to this assessment, and in particular if there are issues that indicate we may need to consider qualifying our VFM conclusion, we will discuss these with management as soon as possible. Such issues will also be considered more widely as part of KPMG's quality control processes, to help ensure the consistency of auditors' decisions.

Audit approach

On the following page, we report the results of our initial risk assessment.

We will report on the results of the VFM audit through our ISA 260 Report. This will summarise any specific matters arising, and the basis for our overall conclusion.

The key output from the work will be the VFM conclusion (i.e. our opinion on the Council's arrangements for securing VFM), which forms part of our audit report.

Value for money arrangements work (cont.)

Significant VFM Risks

Those risks requiring specific audit attention and procedures to address the likelihood that proper arrangements are not in place to deliver value for money.

Risk:	**Delivery of budgets** For 2017/18 the Council set a net expenditure budget of £294.7 million, £20 million lower than the actual net expenditure delivered in 2016/17, although this was increased to £302.7 million during the year to reflect one-off in year commitments. The budget includes significant increases in resources for Children's Services and Adults' Services, and assumes a further use of reserves of £19 million. To deliver the budget the savings required are £54 million. As part of the budget reporting the Council outlined the indicative budgets for the next 3 years which shows budget surpluses being planned, albeit with increasing savings targets supporting those years, £82 million in 2018/19, £99 million in 2019/20 and £104 million in 2020/21. It should be noted that this is at a specific point in time (January 2018) and the budget will be considered by Cabinet on the 30 January 2018 and Council on the 14 February 2018. Early in-year monitoring indicates that the budget is forecast to be overspent but the Council is implementing a range of mitigations to reduce the impact of any overspend at the end of 2017/18.
Approach:	As part of our additional risk based work, we will review the controls the Council has in place to ensure financial resilience, specifically that the Medium Term Financial Plan has duly taken into consideration factors such as funding reductions, salary and general inflation, demand pressures, restructuring costs and sensitivity analysis given the degree of variability in the above factors.
VFM Sub-criterion:	This risk is related to the following Value For Money sub-criterion — Informed decision making; — Sustainable resource deployment; and — Working with partners and third parties

Value for money arrangements work (cont.)

Risk:

Children's Services Arrangements

On 25 November 2016 Ofsted published its report from its Inspection of services for children in need of help and protection children looked after and care leavers, and its review of the effectiveness of the Local Safeguarding Children Board. The report rated Children's Services overall in Kirklees as Inadequate. Following this the Council has made fundamental changes in this area including a partnership arrangement with Leeds City Council (LCC) to improve Children's Services. The Commissioner report published in September 2017 noted the Council did not have the leadership and management capacity and capability to drive forward the necessary changes, and their recommendation was to progress the partnership arrangements with LCC to deliver the improvements.

This issue impacted on our VFM conclusion and we issued a qualified 'except for' VFM conclusion in 2016/17.

Approach:

We will consider the range of reports and information published and available from third parties including the Commissioner and Ofsted.

We will consider the degree to which changes that have been made in the Council's arrangements impact on our VFM conclusion.

We will also review how progress is being monitored and reported on at the Council.

VFM Sub-criterion:

This risk is related to the following Value For Money sub-criterion

— Informed decision making;

— Sustainable resource deployment; and

— Working with partners and third parties

Other matters

Whole of government accounts (WGA)

We are required to review your WGA consolidation and undertake the work specified under the approach that is agreed with HM Treasury and the National Audit Office. Deadlines for production of the pack and the specified approach for 2017/18 have not yet been confirmed.

Elector challenge

The Local Audit and Accountability Act 2014 gives electors certain rights. These are:

— The right to inspect the accounts;

— The right to ask the auditor questions about the accounts; and

— The right to object to the accounts.

As a result of these rights, in particular the right to object to the accounts, we may need to undertake additional work to form our decision on the elector's objection. The additional work could range from a small piece of work where we interview an officer and review evidence to form our decision, to a more detailed piece of work, where we have to interview a range of officers, review significant amounts of evidence and seek legal representations on the issues raised.

The costs incurred in responding to specific questions or objections raised by electors is not part of the fee. This work will be charged in accordance with the PSAA's fee scales.

Other matters

Reporting and communication

Reporting is a key part of the audit process, not only in communicating the audit findings for the year, but also in ensuring the audit team are accountable to you in addressing the issues identified as part of the audit strategy. Throughout the year we will communicate with you through meetings with the finance team and the Corporate Governance and Audit Committee. Our communication outputs are included in Appendix 1.

Independence and Objectivity

Auditors are also required to be independent and objective. Appendix 3 provides more details of our confirmation of independence and objectivity.

Audit fee

Our Audit Fee Letter 2017/2018 presented to you in March 2017 first set out our fees for the 2017/2018 audit. This letter also set out our assumptions. We have not considered it necessary to seek approval for any changes to the agreed fees at this stage.

Should there be a need to charge additional audit fees then this will be agreed with the s.151 Officer and PSAA. If such a variation is agreed, we will report that to you in due course.

The planned audit fee for 2017/18 is £158,729, compared to 2016/2017 of £164,549.

Enhanced auditor reporting

What's new?

The new international auditor reporting requirements provide **greater insight and transparency** for users of financial statements.

We are required to describe the "key audit matters" in our audit report. We are also required to provide a long-form report for all EU PIEs and all other listed entities, including AIM listed companies.

Based on the work undertaken in the course of the audit we include our opinion on whether the strategic report and directors' report have been prepared in accordance with the Companies Act and confirm whether they are materially misstated or inconsistent with the financial statements.

We will report by exception our conclusion on the directors' use of the going concern basis of accounting even if there are no material uncertainties.

What does this mean for you?

The disclosures in your financial statements will need to interlink neatly with the key audit matters in our audit report, which may mean that you need to enhance certain disclosures.

Our audit opinion will be enhanced by:

Matters communicated to those charged with governance

↓

Matters that required significant auditor attention in performing the audit

↓

Key audit matters
(Matters of most significance)

- Concise and specific subheadings that highlight the key elements of the risk and the procedures performed
- Identifying and explaining changes in assessed risk levels
- Distinguishing between recurring and non-recurring risks
- Including our response to the most significant risks/ key audit matters
- Additional materiality and scoping disclosures for our audit of parent companies
- Disclosing comparatives for financial statement amounts, materiality, audit scoping and audit coverage
- Including an overview section at the start of the report
- For EU PIE audits, including a statement on the ability of the audit to detect irregularities and fraud

More on Enhanced Auditor Reporting

Appendix 1:

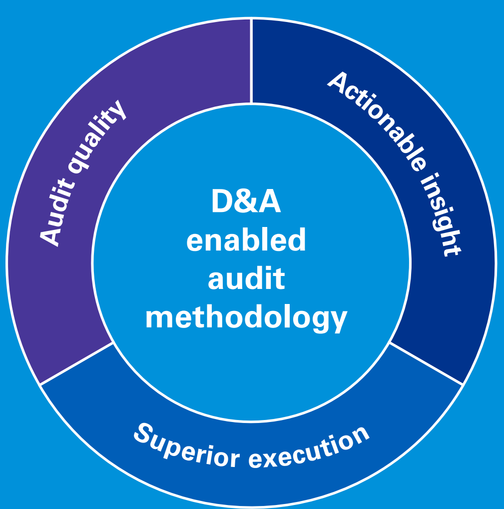
Key elements of our financial statements audit approach

Driving more value from the audit through data and analytics

Technology is embedded throughout our audit approach to deliver a high quality audit opinion. Use of Data and Analytics (D&A) to analyse large populations of transactions in order to identify key areas for our audit focus is just one element. Data and Analytics allows us to:

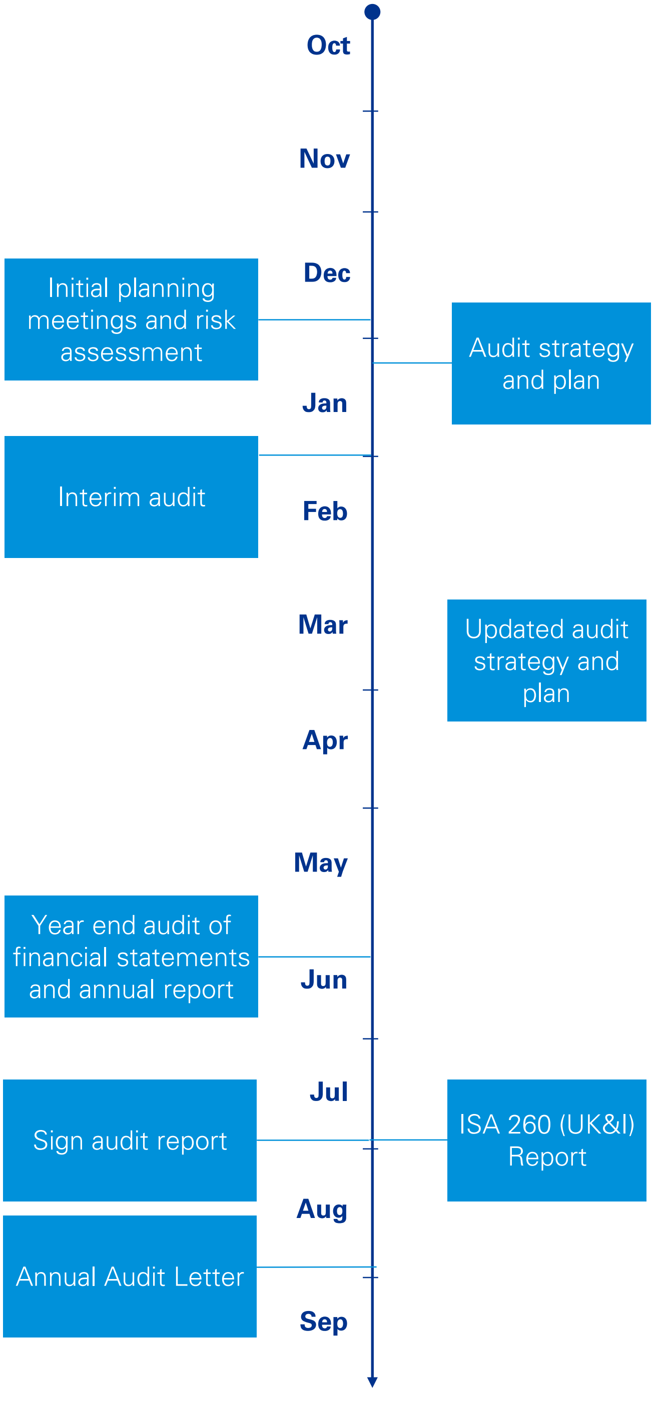
- Obtain greater understanding of your processes, to automatically extract control configurations and to obtain higher levels assurance.
- Focus manual procedures on key areas of risk and on transactional exceptions.
- Identify data patterns and the root cause of issues to increase forward-looking insight.

We anticipate using data and analytics in our work around key areas such journals.



Communication

Continuous communication involving regular meetings between Corporate Governance and Audit Committee, Senior Management and audit team.



Appendix 1:

Key elements of our financial statements audit approach (cont.)

Audit workflow

Planning

- Determining our materiality level;
- Risk assessment;
- Identification of significant risks;
- Consideration of potential fraud risks;
- Identification of key account balances in the financial statements and related assertions, estimates and disclosures;
- Consideration of managements use or experts; and
- Issuing this audit plan to communicate our audit strategy.

Control evaluation

- Understand accounting and reporting activities
- Evaluate design and implementation of selected controls
- Test operating effectiveness of selected controls
- Assess control risk and risk of the accounts being misstated

Substantive testing

- Plan substantive procedures
- Perform substantive procedures
- Consider if audit evidence is sufficient and appropriate

Completion

- Perform completion procedures
- Perform overall evaluation
- Form an audit opinion
- Corporate Governance and Audit Committee reporting

Appendix 2:
Audit team

Your audit team has been drawn from our specialist public sector assurance department. Rashpal Khangura replaces John Prentice as the Director on this engagement in 2017/18. Ben Haydon has also joined the audit team as assistant manager.

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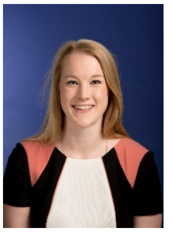
E: Rashpal.Khangura@kpmg.co.uk

'My role is to lead our team and ensure the delivery of a high quality, valued added external audit opinion.
I will be the main point of contact for the Corporate Governance and Audit Committee and Chief Executive.'



Emma Kirkby
Manager
T: +44 (0) 7468 365290
E: Emma.Kirkby@kpmg.co.uk

'I provide quality assurance for the audit work and specifically any technical accounting and risk areas.
I will work closely with director to ensure we add value.
I will liaise with the Service Director for Finance, Assistant Directors and the Head of Internal Audit.'

Thomas Brough
Assistant Manager
T: +44 (0) 7826 536885
E: Thomas.brough@kpmg.co.uk

'I will be responsible for the on-site delivery of our work and will supervise the work of our audit assistants.'

Appendix 3:

Independence and objectivity requirements

ASSESSMENT OF OUR OBJECTIVITY AND INDEPENDENCE AS AUDITOR OF KIRKLEES COUNCIL

Professional ethical standards require us to provide to you at the planning stage of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed.

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code of Audit Practice, the provisions of Public Sector Audit Appointments Ltd's ('PSAA's') Terms of Appointment relating to independence and the requirements of the FRC Ethical Standard and General Guidance Supporting Local Audit (Auditor General Guidance 1 – AGN01) issued by the National Audit Office ('NAO').

This Appendix is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses:

— General procedures to safeguard independence and objectivity;

— Independence and objectivity considerations relating to the provision of non-audit services; and

— Independence and objectivity considerations relating to other matters.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP partners, Audit Directors and staff annually confirm their compliance with our ethics and independence policies and procedures. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard. As a result we have underlying safeguards in place to maintain independence through:

— Instilling professional values

— Communications

— Internal accountability

— Risk management

— Independent reviews.

We are satisfied that our general procedures support our independence and objectivity.

Appendix 3:

Independence and objectivity requirements (cont.)

Independence and objectivity considerations relating to the provision of non-audit services

Summary of fees

We have considered the fees charged by us to the Council and its affiliates for professional services provided by us during the reporting period.

Facts and matters related to the provision of non-audit services and the safeguards put in place that bear upon our independence and objectivity, are set out in the following table

Analysis of Non-audit services for the year ended 31 March 2018

Description of scope of services	Principal Threats to Independence and Associated Safeguards Applied	Basis of fee	Estimated Value of Services to be Delivered in the year ended 31 March 2018 £000
Assurance reports provided for grant claims and returns no longer within the PSAA regime. • Teachers Pensions return • Pooling of Housing Capital Receipts • NCTL teacher training return • Skills Funding Agency subcontracting Arrangements	**Self-interest:** These engagements are entirely separate from the audit through separate contracts. The fee rates are low in comparison to the audit fees and they are not contingent on any outcomes from the assurance work. **Self-review:** The nature of this work is to provide an independent assurance report to the relevant external body. This does not impact on our other audit responsibilities and there is no threat of our work under these engagements being reviewed through our audit. **Management threat**: This work provides a separate assurance report and does not impact on any management decisions. **Familiarity**: This threat is limited given the scale, nature and timing of the work. This is the second year we have completed these assurance reports. **Advocacy:** We will not act as advocates for the Council in any aspect of this work. The output is an independent assurance report to the relevant external body applying an approach issued by that body. **Intimidation:** not applicable to these areas of work.	Fixed fee	£15,000

Appropriate approvals have been obtained from PSAA for all non-audit services above the relevant thresholds provided by us during the reporting period. In addition, we monitor our fees to ensure that we comply with the 70% non-audit fee cap set by the NAO.

Independence and objectivity considerations relating to other matters

There are no other matters that, in our professional judgment, bear on our independence which need to be disclosed to the Corporate Governance and Audit Committee.

Appendix 3:

Independence and objectivity requirements (cont.)

Confirmation of audit independence

We confirm that as of the date of this report, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Audit Director and audit staff is not impaired.

This report is intended solely for the information of the Audit Committee of the Council and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

KPMG LLP

Appendix 4:

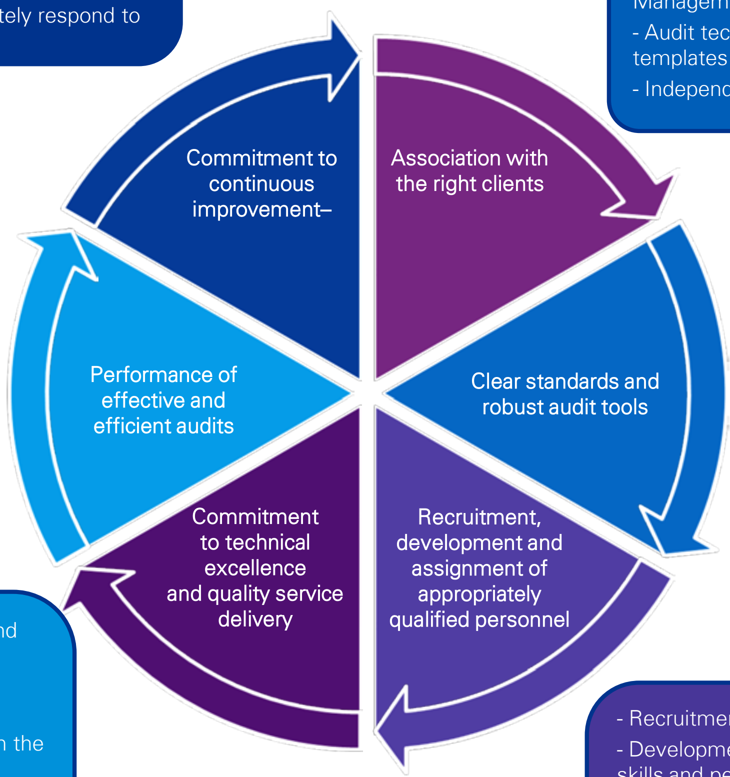
KPMG's Audit quality framework

Audit quality is at the core of everything we do at KPMG and we believe that it is not just about reaching the right opinion, but how we reach that opinion.
To ensure that every partner and employee concentrates on the fundamental skills and behaviours required to deliver an appropriate and independent opinion, we have developed our global Audit Quality Framework.

- Comprehensive effective monitoring processes
- Proactive identification of emerging risks and opportunities to improve quality and provide insights
- Obtain feedback from key stakeholders
- Evaluate and appropriately respond to feedback and findings

- Select clients within risk tolerance
- Manage audit responses to risk
- Robust client and engagement acceptance and continuance processes
- Client portfolio management

- KPMG Audit and Risk Management Manuals
- Audit technology tools, templates and guidance
- Independence policies



- Professional judgement and scepticism
- Direction, supervision and review
- Ongoing mentoring and on the job coaching
- Critical assessment of audit evidence
- Appropriately supported and documented conclusions
- Relationships built on mutual respect
- Insightful, open and honest two way communications

- Recruitment, promotion, retention
- Development of core competencies, skills and personal qualities
- Recognition and reward for quality work
- Capacity and resource management
- Assignment of team members and specialists

- Technical training and support
- Accreditation and licensing
- Access to specialist networks
- Consultation processes
- Business understanding and industry knowledge
- Capacity to deliver valued insights

Appendix 5:

Mandatory communications

Management's responsibilities (and, where appropriate, those charged with governance)	Prepare financial statements in accordance with the applicable financial reporting framework that are free from material misstatement, whether due to fraud or error. Provide the auditor with access to all information relevant to the preparation of the financial statements, additional information requested and unrestricted access to persons within the entity.
Auditor's responsibilities	Forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.
Auditor's responsibilities – Fraud	Design and implement appropriate responses to identify, assess and obtain sufficient appropriate evidence regarding the risks of material misstatement of the financial statements due to fraud and to respond appropriately to fraud or suspected fraud identified during the audit.
Auditor's responsibilities – Other information	Obtain, read and consider whether there is a material inconsistency between the other information and 1) financial statements and 2) auditor's knowledge obtained in the audit. Respond appropriately when material inconsistencies appear to exist, or when other information appears to be materiality misstated. Report on other information in the auditor's report.
Roles	The identity and role of the engagement partner.

Appendix 5:

Mandatory communications (cont)

Planned scope and timing	An overview of the planned scope and timing of the audit, including details about significant/ financial statement level risks (key audit matters) identified by us. We communicate levels of materiality, significant risks, fraud risks including the risk of management override of controls and the audit response to identified risks.
Communications	The form, timing and expected general content of the communications related to the audit.
Independence	Relationships that may bear on the firm's independence and the integrity and objectivity of the audit engagement partner and audit staff. We must also establish with you a timetable for reporting any insignificant breaches of the IESBA Code of Ethics and UK Ethical Standards (significant breaches are required to be reported as soon as possible) (IESBA Code of Ethics)

Appendix 6:

Additional report relating to Public Interest Entities

Type	Response
Our declaration of independence — OK	No matters to report. The engagement team and the firm have complied with relevant ethical requirements regarding independence.
Key audit partner(s) — OK	We have identified the key audit partner at page 22 in our Audit Plan and Strategy report.
Independence of external experts engaged by KPMG and non-KPMG auditors — OK	We have not engaged external experts or engaged non-KPMG auditors for the performance of aspects of our audit.
Communications with audit committee and management — OK	We have described the nature, frequency and extent of communication with the audit committee and management at page 20 above.
Scope and timing of the audit — OK	We have described the scope and timing of the audit at page 20 in this report.
Audit methodology — OK	Our audit responses to identified risks are described at page 6 in this report.
Valuation methods — OK	We will report the valuation methods applied to the items in the financial statements and the impact of any changes.
Going concern assessment — OK	There are no significant matters affecting the entity’s ability to continue as a going concern.
Requested explanations and documents — OK	We will report on whether requested explanations and documents were provided by management.

Appendix 6:

Additional report relating to Public Interest Entities

Type		Response
Materiality	OK	Quantitative materiality applied to the audit of the financial statements as a whole and materiality for balances/disclosures affected by qualitative factors is set out at page 9 in our Audit Plan and Strategy report.
Non-compliance with laws and regulation or articles of association	OK	We will report on whether actual or suspected non-compliance with laws and regulation or articles of association were identified during the audit.
Significant deficiencies in internal control	OK	We will report on all significant deficiencies and whether they have been resolved by management.
Significant difficulties	OK	We will report on any significant difficulties encountered during the audit. We will report on significant matters arising from the audit that were discussed, or subject to correspondence, with management. We will report on matters that are significant to the oversight of the financial reporting process.
Management's approach to consolidation	OK	We will report on whether management's approach to consolidation is consistent with IFRS.

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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. We draw your attention to the Statement of Responsibilities of auditors and audited bodies, which is available on Public Sector Audit Appointment's website (www.psaa.co.uk).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact […], the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers, by email to Andrew.Sayers@kpmg.co.uk. After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

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